

Message Text

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PAGE 01 LONDON 13441 01 OF 02 210942Z
ACTION EB-08

INFO OCT-01 EUR-12 IO-13 PA-01 ISO-00 OPIC-03 XMB-02
FRB-03 CIAE-00 COME-00 INR-10 LAB-04 NSAE-00
SIL-01 TRSE-00 SP-02 L-03 DODE-00 ICA-11 DOTE-00
/074 W

-----064103 211046Z /10

P R 210930Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9326
INFO ALL EC CAPITALS
AMCONSUL BELFAST
USMISSION GENEVA
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13441

OECD

USDEL MTN

E.O. 11652: GDS
TAGS: ETRD, EFIN, PINT, UK, US
SUBJECT: UK GOVERNMENT INCENTIVES TO DELOREAN MOTOR CO.

REF: (A) LONDON 12468 (B) BELFAST 146 (C) STATE 199732

SUMMARY. THE FOLLOWING INFORMATION IS PROVIDED TO ASSIST
WASHINGTON AGENCIES IN MAKING AN INITIAL ASSESSMENT OF
THE NATURE AND DEGREE OF THE UK GOVERNMENT SUBSIDY GIVEN
TO DELOREAN MOTOR COMPANY. ON THE BASIS OF TWO FACTS --
A SUBSTANTIAL GOVERNMENT GRANT AND CLEAR INTENT TO
EXPORT MOST OF THE PRODUCTION TO THE UNITED STATES --
THERE APPEARS TO BE STRONG EVIDENCE OF DIRECT GOVERN-
MENT AID WHICH WOULD HAVE THE EFFECT OF AN EXPORT
SUBSIDY IF AND WHEN CARS ARE ACTUALLY SHIPPED TO THE
US. HOWEVER, THIS IS MORE THAN A TECHNICAL TRADE
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PAGE 02 LONDON 13441 01 OF 02 210942Z

POLICY ISSUE. US ACTIONS IN THIS CASE WILL HAVE IM-
PLICATIONS FOR THE BROADER BILATERAL RELATIONSHIP
AND THE US INTEREST IN A PEACEFUL RESOLUTION OF THE
CONFLICT IN NORTHERN IRELAND. FOR THIS REASON WE
RAISE THE ISSUE AT AN EARLY POINT FOR WASHINGTON
CONSIDERATION. END SUMMARY.

1. THE TOTAL COST OF MOVING TO THE POINT OF ACTUAL PRODUCTION WAS GIVEN BY THE GOVERNMENT AS 65 MILLION POUNDS, AND THIS FIGURE IS SAID TO EXCLUDE ALL COSTS INCURRED PRIOR TO SIGNING THE AGREEMENT AS THEY ARE TO BE BORNE BY DELOREAN. OF THIS 65 MILLION, DELOREAN ANNOUNCED HIS COMPANY WOULD PUT UP 20 MILLION, DIRECTLY IMPLYING A UK GOVERNMENT CONTRIBUTION OF 45 MILLION. IN A SUBSEQUENT WALL STREET JOURNAL INTERVIEW DELOREAN SAID THE GOVERNMENT'S AID WOULD IN FACT TOTAL 100 MILLION DOLLARS, OR APPROXIMATELY 51 MILLION POUNDS. THIS 6-7 MILLION POUND DISCREPANCY IN THE AMOUNT OF GOVERNMENT SUPPORT, ALONG WITH PUBLIC CRITICISM FROM SOME QUARTERS ABOUT THE FINANCIAL WISDOM OF THE DEAL, HAS CAUSED THE UK GOVERNMENT SOME EMBARRASSMENT. GOVERNMENT SPOKESMEN, HOWEVER, HAVE NOT CONTRADICTED DELOREAN'S RECENT STATEMENT THAT BRITISH GOVERNMENT SUPPORT WILL IN FACT BE GREATER THAN PUBLICLY ANNOUNCED.

2. THE QUESTIONS OF TOTAL COST, RELATIVE SHARES AND HOW DELOREAN WILL RAISE ADDITIONAL PRIVATE CAPITAL HAVE GENERATED CONSIDERABLE INTEREST PRESS PLAY HERE. FOR EXAMPLE, THE FINANCIAL TIMES REPORTED THAT ENTERTAINER JOHNNY CARSON, SEARS ROEBUCK AND MERRILL LYNCH ARE ALL IN FOR ABOUT ONE HALF MILLION DOLLARS EACH OF NEW DELOREAN STOCK.
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PAGE 03 LONDON 13441 01 OF 02 210942Z

3. HOWEVER, THE CENTRAL QUESTIONS ARE OBVIOUSLY WHAT KIND AND HOW MUCH UK GOVERNMENT MONEY IS GOING INTO THE NEW FACILITY. THE GOVERNMENT IS STILL NOT ANNOUNCING ANY DETAILS ON ITS FINANCIAL PARTICIPATION. THE FOLLOWING BREAKDOWN OF "STATE AIDS" WAS OBTAINED IN CONVERSATION WITH A DIRECTLY INVOLVED JUNIOR CIVIL SERVANT WHO WAS PROBABLY UNAWARE OF THEIR SIGNIFICANCE AT THE TIME. (ALL FIGURES IN MILLION POUNDS.)

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P R 210930Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 9327
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 13441

NORTHERN IRELAND DEPARTMENT OF COMMERCE

GRANT TO FACTORY	6.7
LOAN TO FACTORY	6.7
GRANT TOWARD COST OF	
PLANT MACHINERY	12.0
EMPLOYMENT GRANT	9.7

35.1

NORTHERN IRELAND DEVELOPMENT CORPORATION

EQUITY CAPITAL	17.7
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17.7

53.8

FURTHER LOAN OR GRANT IF NEEDED 7.9

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PAGE 02 LONDON 13441 02 OF 02 211036Z

TOTAL 61.7

4. ASSUMING THE ACCURACY OF THESE FIGURES, THE GRANT
ELEMENT FOR FACTORY AND MACHINERY TOTALS 18.7 MILLION
POUNDS. THIS WOULD BE ABOUT 28 PERCENT OF THE ANNOUNCED
65 MILLION POUND COST OF THE PLANT AND ABOUT 41 PER-
CENT OF THE GOVERNMENT'S ANNOUNCED CONTRIBUTION. IF
THE MORE NEBULOUS EMPLOYMENT GRANT, FOR TRAINING

PROGRAMS OR STRAIGHT EMPLOYMENT SUBSIDY, IS ADDED INTO THE GRANT COMPONENT THE TOTAL BECOMES 28.4 MILLION POUNDS. THIS WOULD BE ABOUT 43 PERCENT OF TOTAL COST AND 63 PERCENT OF THE GOVERNMENT'S CONTRIBUTION.

5. THE PREDICTED RETAIL SELLING PRICE IS ABOUT 8,000 POUNDS OR JUST UNDER 16,000 DOLLARS PER CAR. PRODUCTION IS ESTIMATED TO BEGIN IN 18 MONTHS WITH OUTPUT REACHING 20,000 CARS IN THE FIRST YEAR AND 30,000 IN THE SECOND YEAR. DELOREAN HAS ANNOUNCED HE EXPECTS 85 PERCENT OF THIS PRODUCTION TO BE SOLD IN THE US. JUDGING FROM THE FACT THAT DELOREAN EMPLOYEES ARE ALREADY AT WORK IN BELFAST AND DETAILED CONSTRUCTION PLANS ARE ALREADY BEING EXAMINED BY LOCAL OFFICIALS, IT APPEARS DELOREAN MEANS TO MEET THIS SCHEDULE.

6. IT IS CLEAR THAT THE AVAILABILITY OF UK GOVERNMENT FINANCING WAS A FACTOR IN DELOREAN'S DECISION TO LOCATE IN NORTHERN IRELAND. IT IS THE EMBASSY'S INITIAL VIEW THAT THE UK GOVERNMENT PAYMENTS ALSO WOULD DIRECTLY BENEFIT DELOREAN CAR EXPORTS BY PERMITTING LOWER PRICES AND GIVE THEM AN UNFAIR, GOVERNMENT-FINANCED ADVANTAGE OVER U.S. COMPETITORS IN THE US MARKET. IT WILL OF COURSE BE SOME TIME
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PAGE 03 LONDON 13441 02 OF 02 211036Z

BEFORE THERE WILL BE SUFFICIENT FIRM DATA FOR WASHINGTON AGENCIES TO USE IN ASSESSING WHETHER THESE PAYMENTS WOULD RENDER DELOREAN VULNERABLE TO A COUNTERVAILING DUTY SHOULD A COMPLAINT BE FILED, AND EVEN LONGER BEFORE CARS WILL ACTUALLY BE SOLD IN THE U.S.

7. HOWEVER, THE EMBASSY WISHES TO ALERT WASHINGTON TO THESE DEVELOPMENTS IN THE BELIEF THAT IT IS BEST TO CONSIDER THIS MATTER ON AN URGENT BASIS. IT SEEMS TO US THAT IF WE INTEND TO OBJECT, THE LEAST DAMAGING TIME TO DO SO IS AS EARLY AS POSSIBLE. WE ALSO THINK IT WOULD BE IMPORTANT TO CONVEY OUR OBJECTIONS FIRST, AND PRIVATELY, TO THE UK GOVERNMENT. WE ARE SURE THAT WASHINGTON AGENCIES WILL TAKE INTO ACCOUNT THE IMPORTANCE ATTRIBUTED TO THIS HIGHLY PUBLICIZED INVESTMENT WHICH WOULD CREATE 2,000 JOBS IN CATHOLIC WEST BELFAST. IT IS FELT HERE THAT IT WOULD CONTRIBUTE TO A CLIMATE MORE CONDUCTIVE TO A PEACEFUL RESOLUTION OF THE NORTHERN IRELAND CONFLICT. THE EMBASSY MUST ALSO NOTE THAT U.S. OPPOSITION WOULD HAVE IMPLICATIONS FOR OVERALL US-UK RELATIONS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AUTOMOTIVE INDUSTRY, INCENTIVES, MOTORS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON13441
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780341-0079
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
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Line Count: 224
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Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 LONDON 12468, 78 BELFAST 146, 78 STATE 199732
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1679251
Secure: OPEN
Status: NATIVE
Subject: UK GOVERNMENT INCENTIVES TO DELOREAN MOTOR CO.
TAGS: ETRD, EFIN, PINT, UK, US, DELOREAN MOTOR CO
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/f9d95160-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014